

Building the Future for Canadians

Budget 1997

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Budget Speech

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

February 18, 1997



Canada



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Department of Finance
Canada

Ministère des Finances
Canada



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Introduction

Mr. Speaker, before beginning, let me take this opportunity on behalf of the Prime Minister and myself to express our appreciation to the various committees of caucus and of this House, including the Standing Committee on Finance, for all the work they have done leading up to this budget.

As in budgets past, Cabinet members in each of their departments have had to wrestle with difficult choices. The members of the caucus have been on the front lines of the debate in each of their ridings. We are deeply indebted and very grateful to them.

Last, but most importantly, let me say how much we owe to the unprecedented numbers of Canadians who have come forward to offer their views and their ideas to us. They have responded with enthusiasm and energy to the opening up of the process of budget-making. The country is better off for it.

Mr. Speaker, our goal from the beginning has been clear: to strengthen the Canadian economy so that it creates more jobs; to strengthen Canadian society by preserving the programs that sustain the well-being of our people; in short, our goal has been to restore the confidence of Canadians in their future.

When we took office, Canadians were aware of the many challenges we as a people faced and of the need, therefore, for broad and deep reform. They did not want tinkering. They sought lasting solutions. They wanted their government to implement a plan – and stick to it.

This, we have done in our first three budgets, and this, we are continuing to do in this budget.

As a country, we have had to make some difficult decisions. The adjustment has not been easy.

But today, we are well down the road to success.

Our task now is to complete the journey.

Mr. Speaker, our purpose today is twofold. It is to report to the Canadian people on progress made. And it is to set out the further steps that lie before us.

This budget will show that our effort to restore health to the nation's finances is very clearly on track, that we are well ahead of our target, and that we are staying the course of deficit reduction.

It is a budget that will impose no new taxes on Canadians. It is a budget that in selected areas will reduce them.

It is a budget without further cuts to government programs.

It is a budget that will reinforce our plan for economic growth – for jobs in the immediate and the long term.

It is a budget that will announce important investments in key priority areas for Canadians – post-secondary education, medicare and children.

And finally, Mr. Speaker, it is a budget that will lay out the direction for the years that lie beyond. For our concern cannot only be to address the remainder of this government's mandate; we must as well prepare Canada for a new century.

Building the Future: Staying the Course on Restoring Canada's Fiscal Health

Since the deep recession of the early 1990s, Canada's economic recovery has not been as strong as any of us would have liked. There can be no more visible sign of this reality than an unemployment rate that is still unacceptably high.

But, today, our economy is growing and strengthening. The economic indicators of the nation have not been this positive in a very long time.

Short-term interest rates are lower than they have been in close to 35 years.

Inflation remains under firm control.

Our merchandise trade balance – exports over imports – set a record surplus in 1996.

Our current account – the difference between what we pay to foreigners and what they pay us – has improved significantly.

In fact, during 1996, our current account moved into the black for the first time in 12 years. The sharp improvement in the current account means that more of the income generated in Canada, stays in Canada, rather than being sent abroad.

Mr. Speaker, the renewed confidence in our economy has not happened by accident.

It has come about because of the efforts of millions of Canadians, each in their own way striving for a better future.

It has happened because governments finally caught up to what Canadians had long realized – that chronic deficits and runaway debt had become an obstacle to the creation of jobs.

It is no exaggeration to state that only four short years ago the economic future of our country was at risk.

A vicious circle had set in. Higher deficits pushed interest rates up. Higher interest rates weakened the economy and hurt job creation. And the weaker economy and high interest rates in turn pushed the deficit up even further.

Canadians knew this vicious circle had to be broken. Mr. Speaker, we have broken it.

That we chose to do so was not a question of ideology. It was a matter of necessity.

In 1993-94, the deficit had risen to \$42 billion, approximately 6 per cent of GDP.

During the 1993 election campaign, we committed that it would be reduced to 3 per cent of GDP or \$24.3 billion by this current year.

Mr. Speaker, I cannot today give a definitive deficit number for 1996-97. We still need to receive the results for January, February and March and we are some way away from having a handle on the normal year-end adjustments.

That being said, it is now clear that our target will be bettered.

Indeed, even after including this budget's new spending, we can safely say that the deficit for 1996-97 will be no higher than \$19 billion. This is more than \$5 billion lower than our target. It is about \$9.5 billion below the previous year, the largest year-over-year decline ever.

Furthermore, we are also clearly on track to meeting our deficit targets for the following two years – 2 per cent of GDP for 1997-98, and 1 per cent for 1998-99.

Now, I know that a good number of private sector forecasters are saying that we will do much better than this. I hope they are right.

We have always said that our targets were not the most we would do, but the least we could do.

Let me explain.

Most forecasters assume that the future will unfold without surprises.

Ministers of Finance do not have that luxury.

The world rarely behaves as predicted. The Mexican peso crisis which occurred eight weeks before the 1995 budget and sent interest rates skyrocketing is but one example of what can happen.

The bond market changes its mind with every single day.

Ministers of Finance, on the other hand, must set out a track that people can rely on.

That is why, first of all, we have built into our deficit targets a \$3 billion Contingency Reserve to handle unforeseen developments.

We have always said that we would not spend this reserve – and we have not.

Second, having taken the consensus forecast of the private sector as our base, we have built a further prudence factor into our assumptions with respect to interest rates and growth.

The result of this approach, in addition to the measures taken to reduce spending, has been restored credibility in financial markets, and a rising level of confidence in Canada's economic future.

That the actions we have taken in our previous budgets, coupled with prudent projections, have led to doing better than our targets is hardly a reason to change our methodology. It is, in fact, a reason to stick with it. And we will.

Mr. Speaker, for 1998-99, the government's deficit target is \$9 billion, an amount that the government will be able to finance internally, that is to say without any net new borrowing from financial markets.

In other words, for the first time in 28 years, we will not have to go to the markets for new money to pay for government programs, nor to pay for interest on our debt.

International comparisons are important in this highly competitive world. The comparison arising out of new borrowing requirements is one of which we can be particularly proud. This is the way

many countries – the United States, Japan and Germany, for example – measure their deficits. According to this measure, by 1998-99, Canada is expected to have a small surplus – and the best financial record of any of the seven largest industrialized countries. This is a turnaround of unprecedented proportions.

Mr. Speaker, let me reiterate what we have said in each of our three previous budgets:

We will balance the books.

We will do so by maintaining our pace – deliberate, measured and responsible.

We will maintain our approach of two-year rolling targets. And we will not alter course.

Moreover, we will meet our objectives, as in the past, by focusing on getting spending right – *not* by raising taxes.

The fact is that by 1998-99, government spending on everything but the debt will have been reduced from \$120 billion in 1993-94 to \$103.5 billion. This is, in fact, \$2 billion less than was projected last year.

Mr. Speaker, I have spoken thus far about the deficit, about spending, about our borrowing requirements. But the most important measure of financial health, ultimately, is the ability of a government and a country to manage its debt.

The burden of a government's debt is best measured by the size of that debt looked at in relation to the size of the economy. It is expressed by what is called the debt-to-GDP ratio.

Over the past two decades, our debt-to-GDP ratio has been rising relentlessly. In other words, the debt of Canada's government has been rising faster than the income of the country. Mr. Speaker, this had to be stopped. And we are stopping it.

As a result, our economy will soon be growing faster than our debt. The debt will become more manageable. More and more of each revenue dollar will go to pay for services Canadians need, rather than to pay bond holders.

Our goal is to put the debt-to-GDP ratio on a permanent downward track. It is a goal that, for the first time in over 20 years, is now within reach.

Building the Future: Investing in Immediate Jobs and Growth

Mr. Speaker, it is clear that on virtually every financial indicator, Canada is doing well. The question is, what does this have to do with jobs? The answer is everything.

The recovery in our financial health has caused the interest rate picture in Canada to improve dramatically. This is crucial for job creation.

The turnaround in Canada's short-term interest rates has been historic.

In the past two years, they have come down by almost five-and-a-half percentage points.

But the real sign of our success goes well beyond the simple fact of this decline. After all, interest rates tend to go up – and down. What is truly significant is for the past 20 years, short-term rates in Canada have averaged two percentage points *above* those in the United States. However, as we speak today, they are about two-and-a-quarter percentage points *lower*. Indeed, they are lower than American rates for a term up to 10 years.

This dramatic reversal in our favour is not a matter of luck. This new found freedom to make our own decisions can only be explained by the discipline in the country's financial management – and the new confidence and credibility this has created.

While we know from history that it takes time for lower interest rates to stimulate the creation of jobs, we also know that, today, this process is taking hold.

In the last four months, for instance, 85,000 new jobs have been created by the private sector. What is equally significant is that almost all of this employment has been full-time.

Those sectors of the economy that respond the most quickly to lower interest rates are growing strongly. Housing resales have reached record levels. The sale of consumer goods is up substantially.

Forecasters expect economic growth this year to be above 3 per cent.

In fact, there is a consensus, both domestically and internationally, that none of the seven major industrialized countries will do better than Canada in 1997.

As a result, most Canadian private sector forecasters are projecting that employment will increase by between 300,000 and 350,000 jobs during the course of this year.

All this being said, Mr. Speaker, while the outlook is brighter, it is by no means bright enough.

Those who are unemployed certainly know that. So too do those who have a job, but worry they might lose it. So too do families who are concerned about what the future may hold for their children.

Economists can talk about globalization and technological change in the abstract all they want, but governments must not. We cannot treat the restructuring we are all living through as if it were some mechanical concept of academic interest only. It is a phenomenon with very real human consequences. As economies restructure – and as governments are forced to do so as well – we must never lose sight of the impact that this has on hundreds of communities and on many thousands of families.

This, Mr. Speaker, is why we believe that the role of government is not simply to stand still or to stand aside.

Its role must in fact be to *stand with* those Canadians having difficulty adjusting to a turbulent world. The role of government must be to provide Canadians with the confidence and the tools they need to take advantage of the new opportunities the evolving economy offers.

Mr. Speaker, the simple fact of the matter is that the short-term interests of the market do not always address the long-term needs of the nation. A country is not a balance sheet. For this government, taking care of our future requires more than simply taking care of the books.

Upon coming into office, it was very clear what our jobs and growth plan had to be.

First, we had to restore responsible management to the country's finances.

Second, we had to invest in those areas of the economy that would provide immediate growth and job potential, thereby serving as a bridge until the full impact of our efforts to get interest rates down and restore confidence takes hold.

And third, we had to look beyond the short term and make investments that would strengthen longer-term economic growth, investments that by their very nature would take time to kick in, but would create ongoing momentum in an ever-changing job market.

This plan has been very much a part of every budget we have brought down, including this one.

We have taken initiatives in infrastructure, trade, youth employment, labour market training, payroll tax reduction, tourism, rural Canada and small business. Let me briefly describe only a few of them, and outline new actions we are taking in this budget.

Upon coming into office, we provided \$2 billion for the \$6 billion three-year Canada Infrastructure Works Program. In partnership with the municipalities and every province across the country, over 12,000 projects were undertaken.

Last month, we announced an extension of this Program for another year. This means that in 1997, the federal government's contribution will be \$600 million, \$425 million of which is new money, leveraging up to \$1.8 billion of infrastructure investment.

On *trade*, our efforts have been unceasing.

Four Team Canada trade missions unprecedented in their results have been led by the Prime Minister. What is noteworthy is that the last mission, to South East Asia, was primarily composed, for the first time, of small- and medium-sized business.

We have negotiated new free trade agreements with Chile and Israel.

Financing for Canadian exports has been improved through new investments in the Export Development Corporation.

All this is paying off. The fact is that since 1992, the volume of our exports has soared by almost 50 per cent.

On *youth employment*, last year, we doubled our funding for summer jobs, creating 60,000 positions.

Last week, the government announced an initiative that will support 120,000 summer jobs over the next two years and, in addition, create new internship programs to provide over 19,000 positions to give young Canadians real work experience.

On *payroll taxes*, when we came into office, we acted immediately to stop EI premium rates from rising to \$3.30, and we have reduced them as much as we can each and every year. For 1998, we have assumed the EI premium rate will be reduced to \$2.80.

Furthermore, last fall, we announced a New Hires Program that will virtually eliminate EI premiums for additional employees hired this year by almost 900,000 eligible small businesses.

Reductions in the EI premium rate, and other EI reforms, together with the new Hires Program will save workers and employers \$1.7 billion this year alone.

Mr. Speaker, looking ahead, we have been clear since taking office that we will continue to reduce EI premiums as fast as our fiscal situation permits.

Mr. Speaker, *tourism* is an important creator of jobs. Indeed the Canadian Tourism Commission estimates over the next decade 125,000 new jobs can be created in this sector alone.

Therefore, today we are providing the Commission with an additional \$15 million of funding for tourism promotion in each of the next three years. As in the past, the private sector will be asked to match our contribution dollar for dollar.

In addition, we are investing a further \$50 million in the Business Development Bank to help finance private sector tourism infrastructure. We believe that working with the tourism industry and other financial institutions, it will be possible to lever up to \$500 million in high quality projects that will attract visitors from abroad.

Mr. Speaker, the pressures of adjustment to a changing world are as acute in *rural Canada* as they are anywhere in the economy.

Therefore, let me state unequivocally that we will ensure, whether it is through programs for infrastructure, for tourism, for high technology, that rural Canada has an opportunity to participate – indeed to participate *fully* – in everything this government has to offer as it builds for the next century.

Furthermore, in addition to the other programs in this budget, \$50 million in capital is being provided to the Farm Credit Corporation, to expand its capacity to support growth and diversification in rural Canada.

And finally, an additional element of successful rural development lies in providing individuals, businesses and voluntary groups with much better access to the information highway, thereby helping to level the playing field between urban and rural Canada.

Therefore, we are announcing today that \$10 million of funding in each of the next three years will be devoted to significantly increase the number of communities across Canada that have the electronic infrastructure required to access the communications technologies of the future. As a result of this program, virtually every community in Canada between 400 and 50,000 in population will be connected over the next four years – 5,000 communities in all.

Finally Mr. Speaker, we know how essential *small business* is to job creation. It is, therefore, no coincidence that virtually all the measures described thus far are of direct relevance to the success of Canadian entrepreneurship.

However, there are two further initiatives that I would like to highlight.

First, I would like to note the announcement last week that Canada will be open to foreign branch banking. The increased competition this should produce will increase the financing options – that is, the increased access to capital required by small- and medium-sized Canadian business.

Second, small business has been very clear about the major costs of the paper burden created by governments – for example, those imposed by the requirement to file payroll deductions with the federal government on a monthly basis. They are right.

Therefore, for small businesses with good records of compliance, we are eliminating this requirement. They will now be permitted to file on a quarterly basis. This has the potential of benefiting up to 650,000 small businesses.

Let me emphasize that in each and every one of the areas I have addressed, a new ethic of partnership has clearly developed. Whether on trade or tourism, infrastructure or rural development, co-operation and partnership among governments, and with the private sector, have become very much our way of conducting the nation's business. It is a better way. It is one on which we intend to build.

Building the Future: Investing in Long-Term Job Creation and Growth

Mr. Speaker, I have just described some of the investments we have made – and are continuing to make in this budget – investments which have had an immediate impact on economic growth, and which will help bridge the gap to the stronger job creation that is now expected. Canadians can be assured, Mr. Speaker, that we will continue to provide this bridge as long as it is needed.

This is obviously important. However, at the same time, government must look beyond the next year or two, and focus as well on longer-term economic growth and job creation.

In short, we must broaden our notion of infrastructure. We must take it beyond its traditional meaning, to include the components of future economic success – post-secondary education, knowledge, innovation, for example. These are the building blocks of the new wealth of nations and it is in this infrastructure as well that government must invest.

If we fail to do so, we will fail the country of tomorrow. We will short-change the next generation.

Investing in Higher Education

Canadians know that a better education equals better jobs.

This is true for our young people who are in school. It is also true for those already in the workforce, whose continued employment is increasingly dependent on lifelong learning.

In last year's budget, measures were taken through the tax system to help students and their parents.

To help with living expenses while attending university, community college or vocational school, we raised the amount used to establish the education credit by 25 per cent, thus reducing the taxes students or their parents must pay. Today, we are raising this amount further. We will double it in two stages to \$200 per month.

Next, students often face new or higher fees apart from the cost of tuition itself. Up until now, these fees have not been covered by the tuition credit. Henceforth, they will be.

Furthermore, under the current rules, some students or their parents cannot take advantage of these tuition and education credits because they do not have sufficient income in a particular year to utilize them. This is often the case for those who do not have supporting parents or for people who enroll in an education program later in life in order to reorient their careers or to retrain themselves. Therefore, we are changing the rules so that students who are not able to use these credits in the year of study will now be able to do so by carrying them forward to be offset against future income.

As a result of the measures just announced and those put in place by last year's budget, the combined federal and provincial tax assistance for a typical student will rise from \$900 to over \$1,200 per year – an increase of one-third.

Next, Mr. Speaker, we are taking steps to assist students who have difficulties in managing the debt burden they incur through taking out student loans.

Despite the assistance currently provided under the Canada Student Loans Program, some students are unable to meet their loan repayment obligations because they cannot find work quickly enough, or do not have sufficient income.

Therefore, the federal government will extend from 18 to 30 months the period of time that students facing these difficulties can defer making loan repayments. During this period, the federal government will pay the interest the student would have otherwise had to pay. Combined with the existing grace period before loan repayments begin, this means students will have up to three years of help after graduation in managing their loans.

In addition, the federal government is ready to pursue with interested provinces, lenders and other groups, an additional option for repaying student loans. Students would be able to choose between current repayment arrangements and a repayment schedule tied directly to the individual's income. By tailoring payments to individual circumstances, the result would be a much more manageable debt.

Thus far, Mr. Speaker, we have spoken about measures to support those already in school, or those who wish to return to upgrade their qualifications. But increasingly, parents with young children are worried that they will not be able to afford the costs of their education.

Registered education savings plans (RESPs) exist to provide parents with incentives to save for their children's education. The full benefits of these plans are reaped by parents who start saving when their children are very young. This is because these funds grow tax free until the child is ready to attend higher education. Today, we are announcing measures to make RESPs more attractive and flexible.

In order to help parents save more in RESPs, the annual contribution limit will be doubled to \$4,000. This will enable those parents who do not start until their children are older to still accumulate substantial savings.

Finally, we have found that some parents may be reluctant to invest in RESPs because they fear losing their investment if their children do not pursue higher education. Therefore, we are allowing individuals to transfer unused RESP income into their RRSPs if they have room.

In all, the initiatives announced in this budget will, at maturity, increase tax assistance to students and their families by some \$275 million per year.

Investing in Innovation

Mr. Speaker, just as broader and better access to higher learning is essential for students and those already in the workforce, so too they must be provided the facilities needed to acquire that education.

In many such instances, the research facilities at our universities, colleges and hospitals are critical; they are the linchpin for a world-class education.

Why?

Because they provide the tools needed to develop leading edge skills, skills our students must have if they are to succeed, skills our country must have if we are to keep pace with a world that grows more competitive with every passing day.

The fact is that it is only through knowledge, information and ideas – that new products and new services will be created. And it is only if there is an opportunity to develop these products and services in Canada, not abroad, that our best and brightest will be able to contribute to the prosperity of their own country.

In short, Mr. Speaker, the research facilities in our hospitals, our universities and our colleges are part of the root system of our economic prospects for the future.

But today, those facilities are far from what they should be. There has been too little investment. They have not kept pace with what world-class innovation and education demands. Much of our current research infrastructure is literally unable to handle the kind of pressures required to keep Canada in the front ranks of the new economy.

Mr. Speaker, innovation doesn't just happen. It requires investment. Therefore, the government announces today, that it is establishing the Canada Foundation for Innovation, with an \$800 million contribution to support research facilities in our universities, colleges and hospitals.

The focus of the Foundation will be to support research infrastructure in the areas of health, the environment, science and engineering.

In this budget, we are reserving 25 per cent of the amount by which we project to exceed our deficit target this year, over and above the Contingency Reserve, setting it aside to address the critical need for better infrastructure in our major research institutions.

The remaining 75 per cent of the overshoot is going to reduce the deficit.

Mr. Speaker, the Canada Foundation for Innovation represents an entirely new approach to addressing the innovation challenge we have described.

The Foundation will be set up outside of government and will operate independently of government. Investment decisions will be made solely by a board of directors, the majority of whom will be drawn from the private sector and the research and academic communities.

The money we are setting aside will be carefully invested to accumulate interest. The Foundation will, thereby, be able to provide about \$180 million annually over the next five years to support important research infrastructure.

The Canada Foundation for Innovation is about looking forward. It is about our children. It is about education. In short, it is about investing in the future growth of our economy, making a down payment today for much greater reward tomorrow.

Through partnerships for individual projects, be it with the research institutions themselves, with the private sector, or with the provinces, the Canadian Foundation for Innovation's resources could very well lead to up to \$2 billion in needed investment.

The fund will help provide our universities, colleges and research hospitals with the laboratories and equipment they need to complement their own efforts at innovation, laying the foundation for tomorrow's jobs as well as today's.

Building the Future: Investing in a Stronger Society

Thus far, Mr. Speaker, I have spoken about our plan for economic growth and jobs. But if our plan for a strong economy is to succeed, then we must have a strong society as well.

The ultimate test of a nation is its will and capacity to support those who are most vulnerable; to sustain the programs on which every one of its citizens depends.

Mr. Speaker, this government promised to make the retirement income system secure for Canadians.

We are well on our way to doing that.

Indeed, no other industrialized country has done as much as Canada has to come to grips with the challenges of an ageing society.

As we announced last week, we and the majority of provinces have agreed to a strong and balanced package of reforms that will ensure the Canada Pension Plan is there for Canadians.

Old age security (OAS) and the guaranteed income supplement (GIS) also provide public pensions for seniors.

With the introduction of the new Seniors Benefit in 2001, we will have taken action to make these programs secure and sustainable as well.

Reforms to both the Canada Pension Plan and the Seniors Benefit fully protect all current seniors.

In summary, Mr. Speaker, as a result of the actions we have taken, Canadians can rest assured that the public pension system in their country can be counted on by them and by future generations.

Sustaining and Improving Canada's Health Care System

Mr. Speaker, this assurance is also true for Canada's system of publicly funded universal health care – one of this country's greatest achievements.

This government's commitment to the principles contained in the *Canada Health Act* is unequivocal. These principles will be maintained. They will be enforced.

The federal government supports health, education and welfare by providing transfers to the provinces. Last year, under the new Canada Health and Social Transfer, a predictable and assured level of funding was legislated for the five-year period through to the year 2002-03.

A stable transfer of more than \$25 billion annually in cash and tax points is in place until the turn of the century, at which time it will begin growing. Legislation passed last year also guarantees that the cash component of the transfer will never fall below \$11 billion per year. This is a floor, not a ceiling. Indeed, cash transfers to the provinces are projected to begin growing around the year 2000.

Mr. Speaker, this federal funding ensures that the principles of medicare will be protected. But this speaks to only one part of our challenge.

The second part is to acknowledge and act upon the need for change. Yes, we will protect medicare but, more importantly, we must show the will and the wisdom to improve it – to strengthen it.

Upon coming into office, the Prime Minister established the National Forum on Health to advise Canadians on how to improve our health care system. Earlier this month, the Forum issued its report. As the Prime Minister has stated, it provides an extraordinarily creative, comprehensive and common sense view of how governments must work together to address the long-term health care challenge in Canada.

The way in which health care is delivered is changing, and the National Forum on Health has suggested ways to rebalance our expenditures more effectively.

The Forum's report is very clear. It confirms that while, as a nation, we devote sufficient financial resources to the health care system, these resources are not being spent as efficiently as they might be.

The Forum further states that the transition to a more effective way of running the system in the future requires some targeted investment today.

This budget provides \$300 million over the next three years to respond directly to the recommendations of the National Forum.

Let me emphasize that every single dollar will be devoted towards the delivery of better health services to Canadians.

First, the Forum makes it clear that one of the greatest challenges we face is devising more innovative ways to deliver health care.

Therefore we are announcing today that we will provide \$150 million over the next three years to help the provinces put in place the type of pilot projects – for example, new approaches to home care, drug coverage and other innovations – that will enable them to test ways in which our health systems can be improved.

This amount will be allocated to provinces on an equal-per-capita basis and decisions regarding spending will be made jointly by Canada's ministers of health.

In the same vein, we will also provide \$50 million over the next three years to allow both levels of government to put in place a co-ordinated national system of health data – the Canada Health Information System – ensuring that health care providers, planners and individual Canadians across the country have the right information at the right time, including the most up-to-date knowledge possible concerning the best treatments available.

Next, the Forum spoke out in favour of stronger community-based programming. We agree.

At the present time, the federal government funds two community-based programs directed to improving the health of children.

The first is the Community Action Program for Children, which today supports hundreds of community groups – for example, in providing parenting education, child development centres and

family resource programs – all directed to addressing needs of children at risk up to the age of six years.

The second is the Canada Prenatal Nutrition Program, which promotes the birth of healthy babies among high-risk pregnant women.

We are announcing today that the resources for these two programs, essential components of the increasingly important social economy, are being increased by almost \$100 million over the next three years.

Mr. Speaker, it will not have escaped notice that the last two programs are directed to Canada's children. On this the Forum was unequivocal. One of the best health care investments we can make for tomorrow is to improve the well-being of our children today.

Towards a National Child Benefit System

Our children are our most precious resource and ensuring their health is our greatest responsibility. We also know that an important determinant of the health of our children is the income they have to live on, as well as the services at their disposal. The question is, what are we doing about it? The answer, for too many children and their families, has been not nearly enough. We know that. We say that.

Child poverty is an issue on which the country is coming together. Canadians believe the challenge must be addressed. The Prime Minister has taken a leadership role and he and the premiers, at the First Ministers' Meeting last June, agreed to make investing in children a national priority. Social services ministers from across Canada are making great progress in identifying how we can move forward together.

We know that the causes of child poverty are many. We know that not all of them can be easily addressed.

For example, it is very clear that the ultimate solution includes a growing economy that creates jobs. That goal underpins the economic course we are on.

We also know that we must take the steps necessary to ensure that the services are in place that Canada's children require. Those include, for example, health and dental benefits, remedial help and good nutrition.

Yet today, for many children, those services are not there. This is simply not acceptable.

Mr. Speaker, the fact is the way the current system of services and support works is contrary to common sense. It is also unfair.

At present, in most parts of the country, when a parent moves off welfare and into the workforce – to provide for themselves and their children – they may see their incomes actually drop.

Their children lose the services provided them under social assistance – services they need and deserve.

To persist with a system where the price parents pay for rejoining the workforce is to see the circumstances of their children actually *worsen* is bad social policy. It is bad economic policy. Going to work should make people's lives better, not worse.

The challenge is clear.

It is to change the system so that the services and supports children need are there for them.

Mr. Speaker, meeting this challenge requires a national effort, a co-operative strategy, on the part of both the provinces and the federal government.

Why?

Because it is the provinces that are best equipped to deliver the services and support families need.

And it is the federal government, through the tax system, that has the capacity to take the first step that will provide the provinces with the flexibility to devote appropriate funds for these services and support.

How? Through the provision, by the federal government, of an equal level of support for *all* low-income families, a platform on which the provinces can build.

There is now broad agreement on the need for a co-ordinated national effort to do precisely this.

Mr. Speaker, most of the great national programs in this country were built in stages. This was true of medicare. It was true of seniors' pensions. What is important is to take the crucial first step.

In this budget, the federal government is proposing to allocate \$850 million to increase existing spending under the Child Tax Benefit. This includes \$600 million in new funds as of July 1998, in addition to the \$250 million increase in child benefits announced in the 1996 budget. This means that \$6 billion will be provided annually to Canadian families under a new Canada Child Tax Benefit.

Let me explain. In last year's budget, we announced that funding for the Working Income Supplement, which helps meet some of the expenses incurred by low-income families participating in the workforce, would be doubled in two stages. In July of this year, an additional \$125 million was to be provided, with a further \$125 million to be provided in July 1998.

In this budget, to facilitate the move towards a National Child Benefit System, the Working Income Supplement will be further enriched and then restructured as of July this year. First, \$70 million of the increase in the supplement that was to be paid next year will be paid a year earlier.

This will provide \$195 million in new benefits as of this July 1st to over 700,000 families who earned up to \$26,000 per year. One-third of these families are headed by single parents, usually women.

Next, the allocation of this benefit will be changed to reflect the number of children a family has, as do the child allowances provided by the provinces under social assistance.

And finally, as announced, an additional \$600 million per year will be provided to the new Canada Child Tax Benefit.

Mr. Speaker, together with the \$250 million for the Working Income Supplement, which is being rolled into the new benefit, this will mean \$850 million per year of further federal support for over one million children and their families.

Mr. Speaker, the creation of a new National Child Benefit System is a major change which, by its very nature, requires moving forward together with the provinces. Discussions as to detailed design are now underway. Part of the design involves the provinces moving to use the funds freed by the federal investment to provide children with the support and services so needed in their formative years.

For our part, we are planning on full implementation no later than July 1998. However, if based on our discussions with the provinces, it proves possible to go sooner, we will do so.

There can be no more worthy effort than a new partnership on behalf of Canada's children. Mr. Speaker, today, we are devoting significant new financial resources to meeting this challenge. Yet this can be but the beginning. We will provide additional resources – as soon as we can afford it. The reason is very clear. Opportunity denied in childhood too often means chances lost as an adult. The future of Canada's children is the future of the country itself.

Helping Canadians With Disabilities

Despite the many difficulties Canadians face in day-to-day life, most are able to do so as healthy, able-bodied citizens. However, Canadians with disabilities do not have the same opportunities. They face real barriers in everyday life. Mr. Speaker, what these Canadians seek is not special treatment. They seek equal citizenship. And they need our support to secure it.

Last year, we doubled the resources devoted to assisting those who provide the difficult and valuable service of in-home care for family members with disabilities. We also committed to undertake a review of other potential means of support for those who require it.

Today, we are announcing measures that flow from the recommendations of the Federal Task Force on Disability Issues and build on the actions we took last year.

First, disabled workers will now be able to deduct the *full cost* of attendant care from their earned income.

Second, audiologists will now be allowed to certify eligibility for the disability tax credit.

Third, the list of expenses eligible for the medical expense tax credit is being broadened substantially.

Fourth, we are doubling the limit on part-time attendant care; and making eligible expenses incurred for moving to accessible housing.

Fifth, we are introducing a refundable tax credit for low-income working Canadians to help cover the high medical expenses that people with disabilities often face. This will supplement assistance already provided through the medical expense tax credit. This measure will provide additional support to about 280,000 working Canadians with high medical expenses.

And finally, the government is establishing a \$30 million Opportunities Fund which will operate in partnership with non-governmental organizations to provide assistance for Canadians with disabilities.

All in all, Mr. Speaker, the measures outlined amount to an investment of some \$230 million over the next three years, a step on the way to a better life for many thousands of our fellow citizens.

Support for Charitable Giving

Mr. Speaker, across Canada, millions of Canadians give freely of their time to support the work of non-profit, voluntary and charitable organizations. The generosity they show and the good work they do is invaluable. Their participation as citizens builds and maintains the quality of life in our communities. Governments have a very clear obligation to support their involvement and their dedication.

Today, we are announcing important measures to encourage charitable giving. I will highlight the two most significant.

First, the government proposes to increase the amount of donations for which the charitable credit can be claimed in any one year. In this budget, the allowable amount is being raised to 75 per cent and is being uniformly applied to all charities.

This will particularly help smaller charities such as food banks and shelters to solicit donations on the same basis as museums and universities that have Crown foundation status.

Taken together, this measure and the measures introduced in the last three budgets provide the charitable sector with a powerful set of tools for seeking cash donations from all Canadians. Mr. Speaker, as a result of the actions taken in past budgets, as well as this one, for donations of cash, particularly from individuals with middle incomes, Canada has a more generous tax regime than that in place in the United States.

However, there is one area where the Canadian system is significantly less supportive of charities than the U.S. – the donation of gifts in a form other than cash. As a result of this differential, Canadian charities have told us that they have been far less successful in securing large donations than they otherwise might have been. Therefore, this budget addresses an important comparative disadvantage for Canadian charities.

We are proposing tax changes for donations of publicly traded securities, that will put our charities on an equal footing with those in the U.S. This change is designed to assist charities of *all* types. This means the United Way/Centraide, every member of Community Foundations of Canada, universities, hospitals, for example.

This provision will be reviewed after five years to ensure it is effective in both increasing donations and ensuring that the resulting distribution falls fairly and broadly across the spectrum.

Taxation: Our Policy and Our Commitment

Mr. Speaker, let me set out our policy and our commitment on the issue of taxation.

Our goal is straightforward. It is to reduce taxes.

The fact is we came into office in 1993, after a decade of constantly rising taxes – of government asking Canadians to pay more and more to compensate for government's inability to control its spending. Within a month of our election, I stated that this was clearly one of the principal reasons why Canadians had lost faith in government. I further stated that we were determined to put a halt to spiralling taxes. And we have.

In not one of our budgets has there been an increase in personal income tax rates. Indeed, in last year's budget, and in this year's, we have not raised taxes at all. Indeed, in last year's budget, as in this year's, we have put in place selective tax cuts where their positive impact will be greatest.

Mr. Speaker, as we have outlined today, this budget proposes selective tax cuts for low-income families, for charities, for Canadians with disabilities, for students and workers pursuing higher education, and for parents saving for their children's future education.

We have always said that this is the way we would begin the process of tax relief.

These tax savings will total almost \$2 billion over the next three years.

In addition, we are continuing to reduce and simplify tariffs on imports, a major reform that last year alone saved Canadian consumers and business \$600 million.

And there is more. As a result of fiscal restraint, Canadian interest rates have dropped substantially.

This alone has put several billions of dollars in additional purchasing power into the hands of Canadians.

With this as background, I would like now to address the suggestion by some that this is the time to introduce a broadly based tax cut.

Our position is quite straightforward. We would like to reduce personal income taxes more significantly and we will do so as soon as the country can afford it. But to do so now would be irresponsible.

Indeed this debate is only possible because of the progress we have made in reducing the deficit and restoring responsible financial management over the last three years.

To propose a broadly based tax cut at this time is to pretend that the attack on the deficit is over. It isn't. It will be soon – but only if we keep to our course and stand firm.

Mr. Speaker, the issue is *not* whether we should reduce taxes because we are ahead of our deficit target. The real issue is whether we can afford to reduce taxes when we still have a sizeable deficit and when the debt-to-GDP ratio has not yet declined.

Let's face it. A broadly based tax reduction today would have to be paid for in one of two ways. By adding to the deficit. Or by cutting government programs further.

Our view is clear. Neither of these choices is acceptable. We will not break faith with the Canadian people after all the sacrifices they have made and after all that we, together, have been able to achieve. To drive up the deficit again would be to drive up interest rates. It would be to reduce confidence and seriously diminish the prospects for jobs and growth that we now see. This, we will not do.

Nor will we cut programs further. Yes, we must keep up our efforts to root out waste and inefficiency. And yes, we have reduced spending, but we have done so in a way that preserves the essential priorities of the nation. Let me say, having spent three years looking at government spending, cutting billions of dollars further, on top of the cuts that have already been made would have no other consequence than to put at risk programs Canadians want us to protect – the programs that go to the heart of the nation's sense of its well-being.

Yes, there will be a time to consider a broadly based tax reduction.

But we will not do it until we know we can afford it – and until we know it can be sustained. Our goal must be permanent fiscal recovery. That is the only assured route to permanent tax relief.

Building the Future for Canadians

Mr. Speaker, let me now summarize our plan for a strengthening economy and a stronger society, a plan acted upon in each of our budgets.

On taking office, we had to first re-establish confidence in the country's management of its financial affairs. Every one of our deficit targets has been met – in fact, bettered.

The second element of our plan has been to take action in areas that have an immediate impact on growth and jobs – in trade, tourism, small business, rural Canada, youth employment, and infrastructure.

The third element has been to strengthen the foundation of long-term economic growth and jobs by investing in post-secondary education, labour market training and in the knowledge infrastructure Canada must have.

And the fourth element has been to invest in a stronger society – in health, in the future of our children.

Fiscal control. Immediate initiatives for jobs and growth. Longer-term investments for a stronger economy. Laying the foundation for a stronger society.

These four elements make up our plan. They are what our previous budgets have been about. They are what this budget is about.

Mr. Speaker, as I draw to a close, let me just say one thing. We must be very clear. There can be no going back. The days of over-reaching, over-spending governments are over.

Nor can there be a return to the time when government could not, or would not, set priorities – and as a result spent too much on what *didn't* matter and not enough on what *did*.

What government does with scarce resources shows what its values are. This government has set its priorities. And with this budget we are investing in them. While continuing to bring the deficit down, we are providing substantial new resources to invest in jobs, in health care, in education, in our children. This is a reflection of our values.

We have made it very clear we will not deviate from the deficit track. To those, however, who would use deficit reduction as a cover, an excuse to make government disappear, well let me say that is not what we believe.

We believe a government relieved of the deficit burden is not a government relieved of its responsibilities. It is a government able to fulfill them.

Our role must be to reach out to those in need.

We must be able to speak for those whose voices are drowned out by the winds of change and the forces of privilege.

Mr. Speaker, the role of government must be to help the country reach forward to the future.

There is no doubt this has not been an easy decade for Canadians.

We have faced a painful process of adjustment to free trade and technological change.

But now, Mr. Speaker, having done what we had to do, we can see that the worst is behind us, that brighter days lie ahead.

The era of cuts is ending.

The finances of the nation are finally being brought under control.

We are at the point where we are now able to forge a new destiny for ourselves.

Mr. Speaker, in terms of the nation's finances, very clearly our journey is not over. But equally clear, is how far we have come. Far enough most certainly, for us now to build on a shared vision of the kind of country we want for our children.

This vision, Mr. Speaker, can never be anchored in the extremes of ideology, of left wing or right.

It must be based on the pursuit of the great balance that has always been at the heart of our national mission – the balance between individual freedom and collective responsibility.

It must be based on the knowledge that in a civilized society, our public institutions, and the sense of community and common purpose they represent, are as critical to our economic health as are the operations of the free market.

If we have been forced to spend much of our energy addressing financial problems inherited from the past, now, with those problems on the way to resolution, we can focus on the promise of the future – on the great national challenges that lie ahead.

Let us never come to believe that there is such a thing as a tolerable level of child poverty or that a growing gap between the rich and the poor is ever acceptable. Let us never forget the debt we owe to our seniors, and let us leave no stone unturned in our quest for jobs.

Let us recognize that Canada's greatest natural resources do not lie buried deep in the ground, but in the skills and talents of those who walk upon it.

Let us do what is necessary to ensure that Canada not only meets the standards of innovation that the world has set for today, but that we set the standards that others must meet tomorrow.

And let us speak loudly and clearly to those who believe that we cannot afford medicare anymore. Let us say that if there was ever a time in our history when we cannot afford *not* to have medicare, it is now – and let us go on to strengthen it, for all time.

Mr. Speaker, there is literally nothing standing in our way. We have it in ourselves to do all of this and even more.

For three years now, our course has been to provide Canada with a new beginning.

Well, the time has come to turn this beginning into great achievement.

It is time to shed doubt. It is time to turn away from the timid, from the pessimists, from those who believe we can settle for second best.

It is time to speak to the reality of the national interest.

It is time to say that this will not be a good country for any of us until it is a good country for all of us.

It is time to make this nation a place of great hopes once again.

This is the course we are on. On this course we will stay. Mr. Speaker, on this course we will stand.

